

## Message Text

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ACTION MC-02

INFO OCT-01 NEA-10 ISO-00 EB-07 COME-00 TRSE-00 CIAE-00

INR-07 NSAE-00 L-03 ACDA-05 DODE-00 DOTE-00 FAA-00

EUR-12 STR-04 SS-15 NSC-05 /071 W

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R 250932Z SEP 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 2499

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E.O. 11652: N/A

TAGS: EGEN, SA

SUBJECT: LOCKHEED CONTRACT WITH CIVIL AVIATION DIRECTORATE  
STALLED OVER WORDING OF EXPORT AND USE CLAUSE

SUMMARY:

LOCKHEED VP FOR SAUDI ARABIA VIERS CALLED ON DCM SEPTEMBER 24 TO REPORT THAT NEGOTIATION OF A MJAOR CONTRACT WITH THE DIRECTORATE OF CIVIL AVIATION HAS BEEN STALLED OVER THE INCLUSION OF AN "EXPORT AND USE ARTICLE". VIERS CLAIMS THIS CLAUSE IS IN THE CONTRACT AT THE INSISTENCE OF DEPARTMENT OF STATE OFFICE OF MUNITIONS CONTROL AND THAT ITS WORDING GOES BEYOND THAT OF ANY ARTICLE WHICH LOCKHEED HAD PREVIOUSLY INCLUDED IN CONTRACTS WITH THE SAUDI MINISTRY OF DEFENSE EVEN FOR MILITARY EQUIPMENT WHICH THIS IS NOT. THE SAUDI DIRECTOR OF CIVIL AVIATION, ABDULLAH MAHDI, IS INSISTENT THAT THIS ARTICLE NOT BE INCLUDED IN THE CONTRACT. HE MAINTAINS THAT IT IS A

CIVIL NOT A MILITARY CONTRACT, THAT THE SAME EQUIPMENT AND SERVICES HAVE BEEN PREVIOUSLY OBTAINED WITHOUT SUCH A CLAUSE, AND THAT THE BULK OF THE EQUIPMENT IS FROM NON-U.S. SUPPLIERS. OTHER CONTRACTORS INCLUDING TOSHIBA AND A FRENCH GROUP ARE READY TO STEP IN IF THE  
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CONTRACT IS NOT SIGNED WITH LOCKHEED QUICKLY. WE RECOM-

MEND THAT THE OFFICE OF MUNITIONS CONTROL REEXAMINE THIS ISSUE AND AUZHORIZE AMENDMENT OR DELETION OF THIS ARTICLE.  
END SUMMARY.

1. LOCKHEED VP FOR SAUDI ARABIA VIERS CALLED ON THE DCM SEPTEMBER 24 WITH A LAWYER FROM THE FIRM TO OUTLINE DIFFICULTIES THAT LOCKHEED IS ENCOUNTERING IN NEGOTIATING A CONTRACT WITH THE SAUDI ARABIAN DIRECOTRATE OF CIVIL AVIATION (AN AUTONOMOUS DIRECTORATE WITHIN THE MINISTRY OF DEFENSE AND CIVIL AVIATION).

2. THE CONTRACT IS ENTITLED "CONTRACT FOR AIR DEFENSE AND AIR TRAFFIC CONTROL SYSTEMS IMPROVEMENT AND DEVELOPMENT FOR THE KINGDOM OF SAUDI ARABIA". ACCORDING TO THE FIRST ARTICLE OF THE CONTRACT, IT COMPRISES A PROGRAM TO IMPE-  
MENT IMMEDIATE IMPROVEMENTS NEEDED FOR THE AIR DEFENSE AND AIR TRAFFIC CONTROL SYSTEMS AND TO PROVIDE INTEGRATED PLANNING FOR LONG RANGE NEEDS OF THE KINGDOM'S GROUND ENVIRONMENT, AIR DEFENSE, AND AIR TRAFFIC CONTROL SYSTEMS. THE OBJECTIVE SHALL BE TO EFFECT SIGNIFICANT OPERATIONAL IMPROVEMENTS IN AIR DEFENSE AND AIR TRAFFIC CONTROL SYS-  
TEMS BY INTEGRATING ALL THE SPECIFIED IMPROVEMENTS WITH EXISTING EQUIPMENT, FACILITIES AND SERVICES PRESENTLY OPERATED BY THE KINGDOM TO PRODUCE ENHANCED AIR DEFENSE AND AIR TRAFFIC CONTROL SYSTEMS.

3. MAJOR CONTRACT END ITEMS CONCLUDE: 21 VORTAC INSTALLA-  
TIONS, 12 ILS INSTALLATIONS, 7 RCAG INSTALLATIONS, 3 TMA  
RADAR INSTALLATIONS, 3 TMA CONTROL CENTERS, 11 SHF RADIO  
COMMUNICATION LINKS, EXPANSION OF TROPOSCATTER COMMUNI-  
CATIONS AT 7 LOCATIONS, EXPANSION OF THE TELETYPEWRITER  
SYSTEM AT 26 LOCATIONS, 2 HF AFTM RADIO STATIONS AND COMMU-  
CATION CENTERS, 5 MAINTENANCE AND LOGISTICS CENTERS, A  
TRAINING CENTER WITH EQUIPMENT, A MANAGEMENT AND ENGINEERING  
CENTER, A COMPUTERIZED TRAFFIC FLOW SYSTEM, TECHNICAL  
ASSISTANCE TO THELFTKTTL YHUTXEPUBLIC (FOR ILS, A COMMUN-  
ICATIONS CENTER AND AN APPROACH LIGHTING SYSTEM AT SANA  
AND COMMUNICATIONS TERMINALS AT TIAZ AND HADAIDAH) AND  
TECHNICAL ASSISTANCE.

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4. VIERS INFORMED US THAT THE FOLLOWING EXPORT AND USE  
STATEMENT, (ARTICLE XVII) WAS INCLUDED IN THE CONTRACT  
AT THE INSISTENCE OF THE OFFICE OF MUNITIONS CONTROL  
BEGIN TEXT: ARTICLE XVII, EXPORT & USE, EXPORT AND USE OF  
THE EQUIPMENT, MATERIALS AND/OR SUPPLIES FURNISHED HERE-  
UNDER IS SUBJECT TO ALL APPLICABLE LAWS, ORDERS, OR REGUL-  
ATIONS OF THE GOVERNMENT OF THE COUNTRY IN WHICH PROCURE-  
MENT IS EFFECTED. WITHOUT AFFECTING THE GENERALITY OF

THE FOREGOING, THE GOVERNMENT AGREES THAT THE SUPPLIES ARE FOR USE BY THE GOVERNMENT OF SAUDI ARABIA, AND THAT THE SUPPLIES SHALL NOT BE EXPORTED DIRECTLY TO ANY COUNTRY, EXPORT TO WHICH FROM THE COUNTRY OF PROCUREMENT SHALL, AT THE TIME OF DELIVERY TO THE GOVERNMENT OF SAUDI ARABIA, BE PROHIBITED BY ANY SUCH LAWS, STATUTE, PROCLAMATION, EXECUTIVE OR OTHER ORDER, REGULATION, RULE, OR ANY AMENDMENT THEREOF THEN IN FORCE IN SAID COUNTRY. THE PARTIES FURTHER AGREE THAT THIS AGREEMENT SHALL NOT BECOME EFFECTIVE WITHOUT THE PRIOR APPROVAL OF THE DEPARTMENT OF STATE OF THE U.S. GOVERNMENT IS SUBJECT TO ALL THE LAWS AND REGULATIONS, AND OTHER ADMINISTRATIVE ACTS, NOW OR HEREAFTER IN EFFECT, OF THE U.S. GOVERNMENT AND ITS DEPARTMENTS AND AGENCIES.

5. THE DIRECTOR GENERAL OF CIVIL AVIATION ABDULLJH MAHDI HAS OBJECTED TO THE INCLUSION OF THIS ARTICLE. HE MAINTAINS THAT THE DIRECTORATE OF CIVIL AVIATION HAS PURCHASED IDENTICAL TYPES OF EQUIPMENT AND TECHNICAL ASSISTANCE PREVIOUSLY WITHOUT ANY EXPORT AND USE STATEMENT, THAT THE CONTRACT IS CIVIL NOT MILITARY, AND THAT IN ANY CASE THE BULK OF THE EQUIPMENT WILL BE COMING FROM A EUROPEAN RATHER THAN AMERICAN SOURCES. IN THIS REGARD, LOCKHEED INFORMS US THAT MOST OF THE EQUIPMENT IS PRODUCED BY STANDARD ELECTRIC LORENZ, OF STUTGART, GERMANY (AN ITT SUBSIDIARY) AND THAT MOST OF THE REMAINDER IS FROM MARCONI RADARS LTD. OF ENGLAND. A RELATIVELY SMALL PERCENTAGE (PERHAPS 20 PERCENT) IS FROM THE U.S., PRODUCED BY COLLINS SYSTEMS INTERNATIONAL AND LOCKHEED ELECTRONICS.

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6. VIERS INFORMS US THAT IN CONVERSATION WITH SAUDI OFFICIALS IT EMERGED THAT AN EVEN DEEPER REASON FOR MAHDI'S OBJECTIONS TO THE EXPORT AND USE STATEMENT IS HIS UNWILLINGNESS TO SUBJECT SAUDI CIVIL AVIATION TO CHANGEABLE U.S. LAWS AND ADMINISTRATIVE ACTS. MAHDI REPORTEDLY FINDS THE LAST SENTENCE OF THE ARTICLE EXPECIALLY OBJECT-IONABLE.

7. THE LAWYER SAID THAT IT WAS HIS UNDERSTANDING THAT MUNITIONS CONTROL HAD INSISTED UPON INCLUSION OF THE EXPORT AND USE STATMENT FOR THREE REASONS.

A) THE CONTRACT INCLUDES THE PROVIDING OF SECURE COMMUNICATIONS.

B) TECHNICAL ASSISTANCE IS TO BE PROVIDED UNDER THE CONTRACT, AND

C) THE EQUIPMENT TO BE FURNISHED CAN BE USED AS A POSSIBLE BACK UP TO A MILITARY SYSTEM. LOCKHEED MAINTAINS THAT ONLY THE FLUID STATEMENT IS VALID: THERE WILL BE NO SECURE COMMUNICATIONS PROVIDED UNDER THE SYSTEM AND ANY TECHNICAL ASSISTANCE WILL BE PROVIDED UNDER A SEPARATE GROUND ENVIRONMENT CONTRACT WHICH LOCKHEED SIGNED WITH THE MINISTRY OF DEFENSE IN 1973.

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8. VIERS SAYS THAT LOCKHEED WAS ORIGINALLY IN FAVOR OF DRAWING UP THE CONTRACT IN TWO SEGMENTS, ONE PART COVERING ONLY ASSISTANCE TO THE CIVIL AVIATION DIRECTORATE AND THE OTHER AS AN AMENDMENT TO THE EXISTING GROUND ENVIRONMENT CONTRACT. HOWEVER, MINISTER OF DEFENSE SULTAN DID NOT WANT TWO CONTRACTS AS HE HOPED TO AVOID THE EXPENSE OF DUPLICATION BY GROUPING TOGETHER SOME CIVIL AVIATION AND MILITARY FACILITIES. OF PARTICULAR CONCERN WAS HIS DESIRE TO REDUCE THE DEMAND ON SCARCE SKILLED MANPOWER.

9. DESPITE ITS ORIGINAL WILLINGESS TO, IN EFFECT, DRAW UP TWO CONTRACTS, LOCKHEED STATES IT CAN NO LONGER DO THIS DUE TO THE PRESS OF TIME AND THAT THEY ARE IN DANGER OF LOSING THE CONTRACT. ONE OF THE REASONS WHY ABDULLAY MAHDI IS BEING SO INSISTENT IS BECAUSE HE HAS A NUMBER OF ALTERNAIVES AVAILABLE. LOCKHEED'S ORIGINAL DRAFT PROPOSAL WAS GIVEN TO TOSHIBA WHICH HAS DRAWN UP

A PROPOSAL VIRTUALLY IDENTICAL TO LOCKHEED'S--  
AND WITH A CONSIDERABLY LOWER PRICE TAG. A FRENCH GROUP  
IS ALSO PREPARED TO STEP IN.

10. CONTRACT NEGOTIATIONS WITH THE CAD HAVE BEEN  
GOING ON FOR SEVERAL WEEKS WITH MAHDI ON THIS POINT. HE  
HAS BECOME INCREASINGLY ADAMANT AND IS NOW NO LONGER  
WILLING TO DISCUSS IT. HOWEVER, LOCKHEED VP VIERS FEELS  
THAT IF THE OFFICE OF MUNITIONS CONTROL WILL AGREE TO THE  
DELETION OF THE LAST SENTENCE OF THE EXPORT AND USE  
ARTICLE, THAT MAHDI MIGHT POSSIBLY BE PURSUADED TO ACCEPT  
THE REST OF THE STATEMENT. THIS IS OF NO MEANS  
CERTAIN, HOWEVER, AND IT WOULD MEAN A REVERSAL OF HIS  
PRESENT POSITION. IF MAHDI DOES NOT COME AROUND IT  
MIGHT BE POSSIBLE WITH AN AMENDED EXPORT & USE ARTICLE  
TO DO AN END RUN AND GO DIRECTLY TO MINISTER OF DEFENSE  
AND AVIATION PRINCE SULTAN. THIS HAS THE OBVIOUS DRAW-  
BACK THAT IT WILL MASSIVELY IRRITATE ABDULLAH MAHDI WITH  
WHOM LOCKHEED MUST CONTINUE TO WORK IN THE FUTURE.

11. RECOMMENDATION: WE RECOMMEND THAT THE OFFICE OF  
MUNITIONS CONTROL RECONSIDER THIS CASE. IF IT IS NOT  
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POSSIBLE TO AUTHORIZE DELETION OF THE ENTIRE EXPORT AND  
USE ARTICLE (AND THIS CONTRACT UNDOUBTLY HAS POTEETIAL  
MILITARY APPLICATION, THOUGH WE SEE NO POSSIBILITY OF  
EXPORT), WE WOULD HOPE THAT AT A MINIMUM THE LAST SENTENCE  
OF THE EXPORT AND USE ARTICLE CAN BE ELIMINATED. WE FIND  
THAT SENTENCE REPETITIVE--THE FIRST SENTENCE SAYS MANY  
OF THE SAME THINGS--AND WE UNDERSTAND SAUDI  
RELUCTANCE TO SIGN A CONTRACT SUBJECT TO ALL THE LAWS  
AND REGULATIONS AND OTHER ADMINISTRATIVE ACTS OF THE U.S.  
NOW OR HERE AFTER IN EFFECT.

12. WE REQUEST THE EARLIEST POSSIBLE RESPONSE. THE DIREC-  
TORATE OF CIVIL AVIATION HAS RECEIVED A LETTER FROM PRINCE  
TURKI BIN ABD AL AZIZ DEPUTY MINISTER OF DEFENSE AND AVI-  
ATION, URGING THAT A CONTRACT BE SIGNED WORK BEGIN WITH  
FURTHER DELAY. LOCKHEED SEEMS TO FEEL THAT IT IS IN  
REAL DANGER OF LOSING THIS CONTRACT IF IT IS NOT ABLE TO  
MOVE QUICKLY. WE WOULD HATE TO SEE ANOTHER FOREIGN  
FIRM MOVE INTO THE CIVIL AVIATION FIELD HAS BEEN DOMIN-  
ATED BY U.S. COMPANIES. FUTURE SALES OF SIMILAR EQUIP-  
MENT AND PARTICULARLY THE TECHNICAL SERVICES FEATURE WOULD  
BE LOST TO U.S.  
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## Message Attributes

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